BRIEF IN SUPPORT OF PETITION

The Opinions Below

The opinion of the district court denying respondent's motion appears at 38 F. Supp. 533. It appears in the record before this Court at pages 26-33.

The first opinion of the court of appeals affirming the decree of the district court was published in the advance sheets of 51 U. S. P. Q. at page 425, and appears in the record before this Court at pages 41-44.

The second opinion of the court of appeals reversing in part the decree of the district court has not yet been published in the advance sheets of the Federal Reporter. It appears in the record before this Court at pages 54-57.

Jurisdiction

The grounds of jurisdiction are stated in the Petition. (*ante* p. 4).

Statement of the Case

The facts of the case and the course of the proceedings below are stated in the Petition (*ante* pp. 2-4).

Specification of Error

If the petition is granted, petitioner will urge that the court of appeals below erred in reversing the decree of the district court denying respondent's motion for an injunction restraining petitioner from prosecuting its action against respondent in the southern district of Michigan.

Summary of Argument

The argument is summarized by and will follow the order of the reasons given for allowance of the writ. (*ante* p. 5).

ARGUMENT

POINT I.

The question presented is important and should be reviewed by this Court because the decision below defeats the policy which favors joinder of actions and establishes a rule which will result in a needless multiplicity of actions, in patent and other matters alike.

Petitioner set out to enforce its patent rights which it thought were being infringed by respondent, a manufacturer, and Sears, Roebuck & Company, a large customer of respondent who occupies a special position in the distribution of the infringing products and whose infringing sales were of serious consequence to petitioner's competitive position. (R. 31-32) Smaller concerns in the channels of distribution were ignored.

Petitioner proceeded in the customary manner contemplated by the patent statutes. It instructed its counsel to send notices of infringement and to bring suit if satisfactory replies were not received within a reasonable time, a matter of weeks. The notices were mailed. They contained neither threats nor demands, being formal notices pursuant to R. S. 4900 (35 U. S. Code, Sec. 49)* which provides that in the absence of patent marking "no damages shall be recovered by the plaintiff, except on proof that the defendant was duly notified of the infringement and continued, after such notice, to make, use, or vend the article so patented." Within three and a half weeks after the notices an action was commenced against respondent and Sears Roebuck in the southern district of Michigan where jurisdiction of both could be obtained. Against each, petitioner sought an injunction and an accounting of profits and damages.

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*See Appendix, post p. 21.

Thus petitioner exercised its statutory choice of jurisdiction (36 Stat. 1091, Sec. 48, 28 U. S. Code § 109) and its privilege of joinder under Civil Procedure Rule 20 in a way to permit the claims against both respondent and Sears Roebuck to be tried out in a single proceeding. That is a matter of substantial interest to petitioner and is in accord with the policy which disapproves needless multiplication of litigation because of the extra burden to the courts and to the parties.

The decision below defeats that policy. It requires petitioner to sever its actions so that while it may continue its action against Sears Roebuck, it may not continue its action against respondent. It must submit to a separate trial of the issues of validity and infringement of the same patents in the present action in Delaware.

The one fact which led the court of appeals below to such a result is that in the interval between the notices of infringement and the commencing of petitioner's action in Michigan, while petitioner was getting proof of continued infringement, respondent alone brought this action for a declaratory judgment in Delaware. It brought it one week after the notices were sent, pretending a fear of harassment which the district court found to be groundless, saying: "Plaintiff pretends to fear a campaign of intimidation but presents no basis for such a fear." (R. 28) The court of appeals did not disturb that finding. It is not to be doubted that respondent brought this action, not to remove a threat or an uncertainty, but because of the certain imminence of an infringement action. This declaratory action could not serve any intended purpose of the declaratory judgment law. It is a procedural device which effectively obstructs the adjudication of the patent controversy by preventing the joinder in the Michigan action, where both infringers may be joined, and forcing petitioner to try two separate actions in different jurisdictions. Had Sears Roebuck joined as plaintiff in this declaratory action, the

controversy could have been adjudicated fully in one proceeding. It is the fact that one infringer alone commenced the declaratory action that prevents joinder and forces the double litigation, or will do so unless the decision below is reversed.

If the decision below were based on any special circumstance of this case, the result would carry no consequence beyond the private interest of the parties here. But the basis of the decision is a rule first announced by the same court in *The Crosley Corp.* v. *Hazeltine Corp.*, 122 F. (2d) 925, certiorari denied, March 2, 1942, and freed of any shadow of qualification in the second opinion in this case. The rule established by the decision below is that priority of action is the critical fact, regardless of all other circumstances. Whenever one party to a controversy initiates a declaratory action, the court in which it is brought is required to entertain it and to restrain any later action no matter what the court may think of the needlessness of the declaratory action or the greater desirability of having the controversy adjudicated in the later action, for reasons of speedier adjudication or more complete relief, and no matter what the consequence may be in the way of burden to the courts and to the parties. Specifically, the fact that the rule as applied here would result in two trials and two appeals, instead of one, to accomplish the same end, was not given any weight.

That the rule is an absolute one is shown by the wording of the opinion itself, where the Court below said that "it became the *duty* of that court [Delaware] to adjudicate the controversy" and that "*Regardless* of the presence of the cause of action against Sears, Roebuck & Company in the infringement suit in the Eastern District of Michigan it was the *duty* of the court below to enjoin National from proceeding with the cause of action stated in that suit against Triangle until after the present declaratory action has been decided". (R. 55-56, emphasis added) It is shown also by the contrast to the former opinion in which

the court did give effect to the fact that "the Michigan court alone can dispose of the entire controversy presented in the suit pending before it". (R. 43-44) That circumstance as well as others advanced by petitioner to show the propriety of the district court's action were put aside on the rehearing and the rule of the Crosley case was made absolute.

Such a rule will have effect in the great number of patent cases in which there are two or more large infringers and where a jurisdiction is available in which joinder of defendants is possible. That is a common situation. It will have the same effect in the many non-patent cases in which one person has similar claims against two or more persons and where the controversy is sufficiently defined by some event to enable one of the persons charged to initiate a declaratory action in a jurisdiction where the others charged can not be joined. The rule opens the door to serious abuse of the declaratory remedy because it leaves the district courts powerless to act, no matter how apparent it may be that the declaratory remedy is invoked solely as a procedural device to prevent adjudication of all claims in a single proceeding, and no matter how plainly desirable it may be to have the whole controversy decided in the later and more comprehensive action.

The situation is made more serious in patent cases by the fact that the statutory notice of infringement gives an accused infringer the opportunity to bring a hasty declaratory action, the notice being a definition of a "controversy" and proof of its existence; while the statutory requirement* of proof of continued infringement after no-

*See Franklin Brass Foundry Co. v. Shapiro & Aronson, 278 Fed. 435, 442-444, C. C. A. 3, for the interpretation of the notice statute that makes statutory notice and proof of continued infringement thereafter a condition precedent to a right of action for money recovery where there is no marking; also Hazeltine Corp. v. Radio Corporation of America, 20 F. Supp. 668, 673-4, S. D. N. Y.

tice prevents the patent owner from acting with the same promptness. The patent owner is thereby deprived of his ability to join several infringers in a jurisdiction where all are to be found and where the whole controversy can be adjudicated by a single trial; or at least if he joins them, the rule of this case requires a severance and a suspension of action against the party which has raced elsewhere with a declaratory action.

A rule so absolute, so far reaching in its effect, and so plainly capable of being used to defeat the policy of joinder and to pervert the declaratory remedy, should, we submit, be reviewed by this Court as a matter of general importance in the administration of the courts.

POINT II

The question presented is important and should be reviewed by this Court because the decision below deprives district courts of discretionary power to evaluate the relative desirability of adjudicating a controversy in a declaratory action or in a later executory action, a power which this Court has said they possess and which is essential to a proper administration of the courts.

The court of appeals below made it an absolute rule that it is the "duty" of the district court to entertain the declaratory action and to restrain petitioner's action against respondent in Michigan. It said:

> "As we have seen in the present case the district court in Delaware first obtained jurisdiction of Triangle and National and of the controversy between them. Having taken jurisdiction of the declaratory suit brought by Triangle it became the *duty* of that court to adjudicate the controversy. The rule which we announced in the Crosley case *required it* to restrain the parties from seeking to have the district court in Michigan duplicate that adjudication." (Emphasis added)

This passage, and the whole opinion, show that the court of appeals did not find an abuse of discretion in the action of the district court; indeed it did not review the case from that standpoint as it had done in its original opinion. It put aside all considerations relevant to the exercise of discretion. The decision therefore is not based upon the particular circumstances of this case. It states a mandatory rule for the future.

We think it plain that if the court had considered only the facts of this case it would have held to its original opinion. It was its desire to create an invariable rule for the future, removing this question entirely from the realm of discretionary action in each case, that was the basis of the change in the court's decision. It feared that patent owners might abuse its original decision by joining customers in infringement actions solely to remove the controversy to a different court from that in which the declaratory action was brought. We think that fear is exaggerated. It may be assumed that some patent owners might try such an expedient, but the attempt could be detected quite easily from the circumstances. Equal or greater abuses are made possible by the rule which the court did adopt. It serves no purpose to make a rule which averts one abuse only to leave the courts powerless to check others. If the whole matter is left to the discretionary power of the district courts, all abuses can be prevented, both that which the court foresaw and those which its decision makes not only possible but incorrigible.

The question on this petition, however, is not the wisdom of the rule announced below but whether or not the rule is of such importance as to warrant review by this Court. We submit that it is. Since this Court has held that there is a generally recognized discretionary power with respect to declaratory actions, any rule which destroys that power in all cases where there is a later executory action should receive this Court's attention. It is im-

portant to parties and even more to the courts, because of its effect upon the administration of the work of the courts. District courts should not be deprived of a power which this Court has said they possess unless by express action on the part of this Court. In *Aetna Life Ins. Co.* v. *Haworth*, 300 U. S. 227, at 235, this Court said:

> "It is generally recognized that declaratory judgments are not applicable to every difference, or to every controversy, that may arise between prospective litigants. In all jurisdictions it has been declared that the court has a discretion in determining whether under the law it should declare a judgment at all in any particular case."

The existence of an area of discretion is essential, in cases of the present sort as well as where there is no later action between the parties. No one questions the great usefulness of the declaratory remedy, well illustrated in the field of patents where it enables one who has been subjected to an unfulfilled threat of suit to force the hand of a reluctant patent owner and thereby put an end to this improper use of the patent. See *Lances* v. *Letz*, 115 F. (2d) 916, 917, C. C. A. 2; *E. W. Bliss Co.* v. *Cold Metal Process Co.*, 102 F. (2d) 105 at 109, C. C. A. 6. But as Judge Clark said in *U. S. Fidelity & Guaranty Co.* v. *Koch*, 102 F. (2d) 288 at 294:

> "* * * The fundamental conception of the declaratory judgment is stabilization. So it may be as inconsistent to make action automatic after controversy is found, as to put difficulties in the way of finding controversy. For that reason both students and judges have held that the utilization of the act's machinery in particular cases is within the sound discretion of the courts."

This sensible view, held by many courts, is discarded in the decision below. Action is made automatic.

The present action is one of a common type of declaratory action, in which the plaintiff seeks a declaration that he has a defense to a claim or demand put forward against him. Such actions are frequent also in the field of insurance. If the owner of the claim then brings an action to enforce it, there arises the question whether to adjudicate the controversy in the one action or the other. The objective of course is to avoid needless duplication of actions between the same parties, and to do so by staying the one action or the other. It is evident that under differing circumstances it may be either more desirable or less desirable to adjudicate the controversy in the declaratory action. The ability of the executory action to give more comprehensive relief or speedier relief, or the fact that it permits other parties to be joined, are circumstances to be weighed and may well make it better to stay the declaratory action in favor of the executory action. Likewise, the background of the litigation is relevant. If the owner of the claim has made use of it as a threat to forward some ulterior purpose, such circumstances weigh in the direction of adjudication in the declaratory action where the initiative is with the one who has shown a more genuine wish to have the matter settled.

Often the sequence of initiating the actions is fortuitous and of no significance in itself because reflecting no circumstance that touches the real question of the greater or lesser desirability of adjudication in the declaratory suit. In patent actions, with their special anterior circumstance of a statutory infringement notice, priority will almost always fall to the infringer. He has only to draft a simple complaint after being notified, while the patent owner must get proof of continued infringement after notice, which takes some little time. If the patent owner is proceeding diligently, no declaratory action is needed and the resort to it under such circumstances makes it a procedural device which perverts its true purpose. The use of the declaratory action solely as a means of securing a priority is a perversion which the courts should have power to check.

Yet the decision below makes priority the sole fact of significance and puts a premium on this abuse of the declaratory action. The district court is left no discretion and can do nothing about it. The rule of this case makes it the duty of the court to entertain the suit regardless of any circumstance other than priority. Instead of a flexible administration of the declaratory remedy, making it effective where more useful, and denying it where it is being abused as a procedural device to attain other ends, or where the executory action provides a better means of settling the controversy, the decision below imposes a rigid rule in which the fact of least significance, unrelated in itself to any substantial consideration of desirable administration, is given dominant effect. It is not simply a matter of an undesirable result in the particular case. It is a matter of importance to the many persons whom this rule exposes to needless litigation through improper resort to the declaratory remedy, with no power of restraint in the district courts, and is of importance to the courts themselves to enable them to administer the remedy flexibly but sensibly according to circumstances that are of real significance. Such a matter should be reviewed by this Court.

POINT III.

There is conflict between the decision of the Circuit Court of Appeals in the instant case and decisions of the Circuit Courts of Appeals for the Fourth and Seventh Circuits.

As we have already pointed out, the court below held that in spite of the fact that the Michigan court alone could dispose of the entire controversy between the parties, the Delaware court was bound to retain the declaratory action and was required to restrain petitioner from proceeding against respondent in Michigan solely by rea-

son of the Delaware court's priority of jurisdiction. In thus awarding to the circumstance of priority a position of absolute control and withdrawing from the district court all discretion to consider the other compelling circumstances in the case, the court below came into conflict with the decision of the Fourth Circuit Court of Appeals in *Aetna Casualty & Surety Co.* v. *Quarles et al.*, 92 F. (2d) 321.

That case involved a policy of automobile liability insurance issued by the Aetna Casualty & Surety Company to one H. E. Quarles. While the policy was in effect Quarles' wife was injured while riding in the automobile which he was driving. Shortly after the injury she brought suit against Quarles in a South Carolina state court to recover damages. The Aetna Company was not a party to this suit, but since the policy contained a provision giving the injured party the right to sue the insurer to recover the amount of any judgment obtained against the insured, the Aetna Company filed suit in the Fourth Circuit for declaratory judgment in anticipation of such action. The company alleged collusion in the action between the husband and wife and asked judgment to the effect that it was not bound to pay any judgment that might be recovered therein. Subsequent to the institution of the declaratory action, Mrs. Quarles recovered judgment against her husband, and instituted an action at law against the company in the federal court. In spite of the fact that the declaratory action had been instituted prior to Mrs. Quarles' action for damages against the company, a motion to dismiss the declaratory action in favor of the action at law was granted by the district court. The court of appeals affirmed the action of the District Judge as the proper exercise of his discretion in view of the fact that the granting of the declaratory relief would have meant a piecemeal trying of the controversy which could be completely settled in the action at law.

After pointing out that the grant of relief in declaratory actions rested in the sound discretion of the trial judge, the Court said: (p. 324)

> "We think that this discretion should be liberally exercised to effectuate the purposes of the statute and thereby afford relief from uncertainty and insecurity with respect to rights, status and other legal relations (see Borchard, Declaratory Judgments, 101); but it should not be exercised for the purpose of trying issues involved in cases already pending, especially where they can be tried with equal facility in such cases, *or for the purpose of anticipating the trial of an issue in a court of co-ordinate jurisdiction. The object of the statute is to afford a new form of relief where needed, not to furnish a new choice of tribunals* or to draw into the federal courts the adjudication of causes properly cognizable by courts of the states. See Associated Indemnity Corp. v. Manning (D. C.) 16 F. Supp. 430." (Emphasis added).

The Court further said (p. 325):

> "The granting of the declaratory relief would have meant a piecemeal trying of the controversy without benefit to any one. Under such circumstances the court properly exercised its discretion in refusing to entertain the bill. It is well settled that the declaratory remedy should not be invoked merely to try issues or determine the validity of defenses in pending cases.
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> Whether the remedy shall be accorded one who petitions for it is a matter resting in the sound discretion of the trial court, to be reasonably exercised in furtherance of the purposes of the statute. *It should not be accorded, however, to try a controversy by piecemeal, or to try particular issues without settling the entire controversy,* or to interfere with an action which has already been instituted." (Emphasis added).

The conflict extends not merely to the result, on immaterially different facts, but to the even more important matter of preserving to the district courts an area of discretion within which to decide, on all the circumstances of the case, whether the prior declaratory action or the later coercive action is the better medium for an adjudication of the controversy. The efficient administration of the work of the courts is hindered by the existence of this conflict respecting the power of the district courts in this situation.

The Court of Appeals for the Seventh Circuit has aligned itself with the Fourth Circuit Court of Appeals. In *American Automobile Ins. Co.* v. *Freundt, et al.*, 103 F. (2d) 613, the Court said (p. 617):

> "The wholesome purposes of declaratory acts would be aborted by its use as an instrument of procedural fencing either to secure delay or to choose a forum."

Again, quoting from Borchard, the Court said (p. 618):

> "'* * * where the defendant's action is about to begin or has begun, it serves no sensible end to permit a plaintiff to appear as equitable actor and start the proceedings for an autonomous declaration that he has a good defense to his opponent's pending or imminent action.'"

In concluding its opinion the Court recited the facts of *Aetna Casualty & Surety Co.* v. *Quarles* and stated (p. 619):

> "We are convinced of the soundness of the reasoning and conclusion of the Fourth Circuit Court of Appeals in the foregoing case. The opinion emphasizes that the discretion allowed by the Act 'should be liberally exercised to effectuate the purposes of the statute and thereby afford relief from uncertainty and insecurity with respect to rights, status and other legal

relations'; but the opinion also emphasizes that declaratory relief should not be granted when the result is a 'piecemeal trying of the controversies without benefit to anyone'; or when the remedy is invoked 'merely to try issues or determine the validity of defenses in pending cases.' "*

In view of the compulsion on patent owners to file notices of infringement, thereby providing infringers with the opportunity of obtaining prior jurisdiction for declaratory actions in many cases, we submit that the conflict between the court below and the Courts of Appeals for the Fourth and Seventh Circuits creates a field of uncertainty which will lead to much unnecessary and wasteful litigation if this Court does not intervene.

Conclusion

It is urged, therefore, that the petition for writ of certiorari be granted.

Respectfully submitted,

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New York, N. Y., March 26, 1942.

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*In addition to the decisions of the Fourth and Seventh Circuit Courts of Appeals, decisions of District Courts in the Second and Sixth Circuits also reject the absolute rule of priority laid down by the court below (Ohio Casualty Ins. Co. v. Murphy et al., 28 F. Supp. 252, D. C. W. D. Ky.; Acticarbone Corporation v. National Carbon Company, Inc., D. C. S. D. N. Y., unpublished decision printed as an appendix hereto).